

May 25, 2004

Mr. David R. Eichenlaub, Assistant Director
Division of Economics and Finance
Virginia State Corporation Commission
P.O. Box 1197
Richmond, VA 23218-1197

Dear Mr. Eichenlaub:

The attached joint statement reiterates the commitment of the signatories to a viable competitive electricity market in the Commonwealth. This joint statement from the parties represents agreement on the principles contained therein. Importantly, this statement urges the Commission to facilitate the process towards a fully competitive retail and wholesale electricity market by completing its review of the applications currently before it for the integration of incumbent electric utilities with a Regional Transmission Organization. It also calls for a re-commitment from stakeholders to strive for the successful development of a competitive market in Virginia. It is the firm belief of the participants to this joint statement that continued restructuring is in the best interests of the consumers in the Commonwealth.

Allegheny Power
Constellation NewEnergy, Inc.
Direct Energy Marketing, Inc.
Dominion Retail, Inc.
Dominion Virginia Power
Pepco Energy Services, Inc.
Strategic Energy
Virginia Energy Providers Association
Virginia Independent Power Producers
Washington Gas Energy Services, Inc.

JOINT STATEMENT ON COMPETITION AND RESTRUCTURING 2004

May 25, 2004

The electric utility industry in Virginia is undergoing significant changes. Restructuring and retail competition hold the potential to aid consumers through innovation, downward pressure on prices and enhanced reliability. In the Commonwealth, retail and wholesale competition can provide benefits to consumers.

Continued legislative and regulatory certainty is a necessary component for the ultimate success of restructuring in Virginia and the successful development of the competitive retail market. While individual market participants may disagree as to the methods of successfully developing competitive markets in Virginia, all parties agree that a continued and unwavering commitment to retail choice and wholesale competition is needed to bring these benefits to consumers.

With these factors in mind, we jointly offer the following comments on restructuring and competition in response to the Commission Staff's April 26 letter of invitation.

- Participation in a fully functional regional transmission organization is an essential prerequisite for development of robust competitive markets, both wholesale and retail. Delays in the entry of incumbent Virginia utilities into an RTO continue to pose a very significant obstacle to the success of competition in the Commonwealth.

The General Assembly has twice recognized that functioning RTOs are necessary for the successful development of competitive markets in Virginia. In 1999 the Restructuring Act directed all transmission-owning incumbents to join or form RTOs (called Regional Transmission Entities in the Restructuring Act). The 2003 General Assembly reiterated this directive, passing amendments to the Restructuring Act that directed all incumbents to transfer control of their transmission assets to regional entities no later than January 1, 2005, subject to Commission approval.

In comments submitted to the Commission in 2003, a wide range of stakeholders reiterated the view that membership by all transmission-owning incumbents in a functioning RTO is critical to successful competition in Virginia. The Commission's annual report on the status of competition released on August 29, 2003 acknowledged these comments. "Perhaps the most common issue raised among the comments submitted in response to the Staff's letter regards the lack of a fully functional RTO as the major obstacle" to an active competitive market in Virginia, the report said. (*2003 Status Report: The Development of a Competitive Retail Market for Electric Generation within the Commonwealth of Virginia*, Part III, page 10)

Membership by all transmission-owning incumbents in a functioning RTO would promote market transparency and reaffirm nondiscriminatory access to the interstate transmission grid for competitive suppliers and their customers. Access to a wider generation asset pool will enhance reliability, facilitate both wholesale and retail competition and provide savings opportunities for consumers. To promote the orderly development of Virginia's restructuring initiative, it is imperative that the Commission complete its review of these PJM membership applications of American Electric Power and Dominion Virginia Power and make appropriate recommendations

to require these utilities to join the PJM Interconnection LLC in compliance with the January 1, 2005 date in the Restructuring Act.

- Continued legislative certainty – and a high degree of regulatory certainty – are necessary components for the success of Virginia's restructuring program and the successful development of the competitive market.

Electric restructuring and retail competition are functioning in other parts of the country such as the District of Columbia, Maryland, New Jersey, New York, Texas, Maine, and Massachusetts. The General Assembly has now reaffirmed that continued restructuring is in the best interests of Virginia consumers. In light of that reaffirmation, we believe that by working together in a collaborative and constructive fashion during the transition we can bring restructuring's benefits to consumers and realize the General Assembly's goal of a competitive retail electricity market in the Commonwealth. To this end, consumer representatives, merchant generators, competitive service providers, incumbent utilities – and the Commission and its Staff – should recommit themselves to implementing restructuring and customer choice successfully. These stakeholders should further commit to ensure that effective competition is promoted in Virginia through operational flexibility, systems changes and incremental rule changes that allow consumers ready access to the competitive market. Additionally, these commitments should be clearly stated in the Commission's 2004 report on the status of competition in Virginia.

Philip J. Bray (64073)
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Philip J. Bray, Esq.

Allegheny Power

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Edward F. Toppi (name)

Constellation NewEnergy, Inc.

James Steffes (signature)
TBN

James Steffes (name)

Direct Energy Marketing, Inc.

Jeffrey L. Jones (signature)
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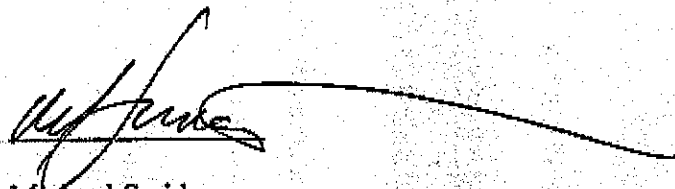
Dominion Retail, Inc.

E. Paul Hilton (signature)

E. Paul Hilton
Senior Vice President
Dominion Resource Services, Inc.

Mark S Kumm (signature)

Mark Kumm
President, Asset Management Group
Pepco Energy Services, Inc.

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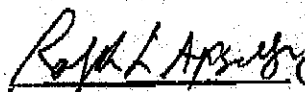
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Ralph L. "Bill" Axselle, Jr.
Virginia Energy Providers Association

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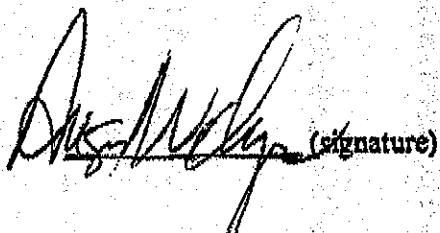
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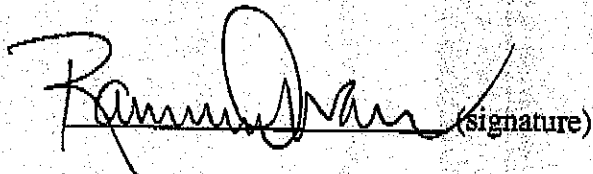
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TEL: 804 771 3473

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August Wallmeyer
Executive Director
Virginia Independent Power Producers



(signature)

Ransome E. Owan, Ph.D.
Director, Regulatory & External Affairs
Washington Gas Energy Services, Inc.